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JOHN F. DAVIS, CL

In the

Supreme Court of the United States

OCTOBER TERM, 1967

No. 1018

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK,
doing business as TRAKWORK EQUIPMENT COMPANY,
Petitioners,

v.

KERSHAW MANUFACTURING COMPANY,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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Petitioner prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Fifth Circuit, entered in the above-entitled cause on September 27, 1966, Rehearing denied November 2, 1966.

OPINIONS BELOW

The Findings of Fact and Conclusions of Law (R. 50-54) and the Order of the Court enjoining the petitioners (R. 60), reprinted herein as Appendix C, was not reported. The opin-

ion of the Court of Appeals affirming the judgment of the District Court, reprinted herein as Appendix A, is reported at ..... F. 2d ....., 151 U.S.P.Q. 148 (5th Cir. 1966).

JURISDICTION

The judgment of the Court of Appeals (R. 322), printed in Appendix B hereto, was entered on September 27, 1966. A timely petition for rehearing (R. 338) was denied on November 2, 1966. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254 (1).

QUESTION PRESENTED

1. Does a former employee compete unfairly with a former employer by use of information once held by the former employer in confidence but placed by the former employer in the public domain prior to termination of the employment?

STATUTE INVOLVED

No statute is involved.

STATEMENT OF THE CASE

Respondent, Kershaw Manufacturing Company (plaintiff below), a manufacturer of railroad maintenance equipment, developed an *on-track* railroad track undercutter with a self-loading feature (R. 50, 139).

Petitioner Bryan (defendant below) was employed by petitioner as Chief Engineer and was familiar with the undercutter and all aspects of its development (R. 50). There

was no formal employment agreement between Kershaw and Bryan. Beginning in May 1963, a subsidiary of Kershaw leased several of said undercutters to various railroad companies through the United States where they were used without restriction as to secrecy (R. 21-22).

Beginning in June 1962 co-petitioner Hambrick (defendant below) was engaged in the railroad contracting field (R. 239). Prior to 1964, Hambrick witnessed Kershaw's undercutter in operation and approached a Kershaw salesman relative to purchase of a Kershaw machine (R. 240). The Kershaw machine would not serve Hambrick's purpose without substantial modification (R. 242). In March 1964, Bryan disclosed to Royce Kershaw, Chairman of the Board and Chief Executive Officer of respondent, that he intended to resign and to compete with respondent in the railroad equipment building business by building undercutters (R. 22, 23). Kershaw said that he had no objections to Bryan using his own ideas in the design and construction of such equipment, but that he did not want Bryan to use any ideas that he regarded as his own, specifically, his ideas in the *off-track* undercutter area (R. 260, R. 23). In March 1964, Bryan entered the employ of Hambrick and in the latter part of April, Hambrick and Bryan initiated construction of an on-track undercutter (R. 10). In July 1964, Kershaw was invited to inspect the Hambrick machine then under construction. The finished Hambrick machine is about ½ the weight of the Kershaw machine (R. 242)

On October 30, 1964, respondent brought this action against Bryan and Hambrick d/b/a Trakwork Equipment

Company in the United States District Court for the Northern District of Texas under 28 U.S.C. 1332, alleging:

a. That Kershaw Manufacturing Company had developed a railroad track undercutter with a selfloading feature;

b. That Bryan had been employed by Kershaw and had learned the details of the undercutter in confidence;

c. That after resignation, in violation of a duty, he began to build an undercutter utilizing that information with a view of selling the undercutter in competition with plaintiff; and

d. Prayed for injunctive relief and an accounting for profits (R. 13-18).

Defendants answered:

a. Admitting that an undercutter with a selfloader had been developed by Kershaw while Bryan was employed by Kershaw;

b. Denying any violation of duty owed respondent;

c. Alleging a right to produce even a copy of plaintiff's undercutter, in common with members of the public generally, as the undercutter and the selfloading feature were in public domain almost one year prior to the time that Bryan terminated his employment with respondent; and

d. Alleging that respondent had agreed that Bryan could engage in manufacture of on-track equipment so long as he refrained from operations in the off-track

field which respondent considered his domain (R. 5-13). There was no question but that Bryan had honored this off-track agreement.

The District Court found (R. 50-52):

a. That Bryan acquired knowledge under circumstances such that he should reasonably have concluded that his employer desired the information concerning the development of such undercutter to be kept confidential;

b. That in May 1963, the Kershaw undercutter was publicly used without restriction as to secrecy;

c. That in March 1964, Bryan resigned from his employment with Kershaw to take a position with Hambrick to design and develop railroad equipment;

d. That Bryan took no Kershaw drawings or design information documents relating to the Kershaw undercutter;

e. That Bryan was aided in the development, design and construction of his undercutter by the *information* (trade secrets) he had acquired during his employment with Kershaw, *but at the time Bryan and Hambrick began construction of an undercutter the substance of such information was public knowledge as Kershaw's machine was in the public domain;*

f. That Bryan did not inspect the Kershaw machine or obtain information from it after his employment with Kershaw was terminated;

g. That Hambrick's undercutter was substantially and functionally the same as the Kershaw undercutter, which was in the public domain, but that Hambrick's undercutter was not a "Chinese copy" of the machine; and

h. That Bryan's use of the information then in the public domain was "in breach of confidence" and that by such use Bryan was able to reduce the time necessary for completing his task.

Bryan and Hambrick were enjoined for 2½ years from the date Bryan commenced work on the Hambrick machine from using or disposing of the present machine and from making other such machines or machines incorporating the same self-loading features they had used in their initial machine. Jurisdiction was retained for ascertainment of damages (R. 60-61). The issue of damages has not yet been set for trial by the Court.

On defendant's appeal, the Court of Appeals affirmed, extending the intermediate Texas state court decision in *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W. 2d 147, 141 U.S.P.Q. 262 (Tex. Civ. App. 1964), to control the present case as to Bryan, and then, departing from said decision, held that earlier Texas Supreme Court decisions, *Hyde Corporation v. Huffines*, 314 S.W. 2d 763, 117 U.S.P.Q. 44

(Tex. 1958), and *K & G Oil Tool and Service Company v. G & G Fishing Tool Service*, 314 S.W. 2d 748, 117 U.S.P.Q. 54 (Tex. 1958), would support the injunction against Bryan's employer, Hambrick.

REASONS FOR GRANTING THE WRIT

1. The decision of the court below directly conflicts with the decisions of this Court in *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

In those cases this Court re-emphasized the general rule that a publicly marketed and unpatented or uncopyrighted article may be freely copied and explicitly held that a state may not prohibit the copying of such articles. The present case involves use of *public* information no longer secret, by one who did not breach his confidence with his employer by using the information while it was still secret. Classical trade secret law does not prevent such a use. To hold otherwise, as did the court below, flies in the face of *Stiffel* and *Compco*.

Since the "secret" was published by the former employer *prior* to any action complained of on the part of the employee, then cases such as *Servo Corporation of America v. General Electric Company*, 337 F. 2d 716 (4th Cir. 1964), *cert. denied* 383 U.S. 934 (1966), *Winston Research Corporation v. Minnesota Mining & Mfg. Co.*, 350 F. 2d 134 (9th Cir. 1965), and *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379 (Ill. 1965), which on their facts found *Stiffel* inapplicable,

are inapposite. It must be concluded that the decision of the present case is in conflict with *Stiffel* and *Compco*.

2. The decision of the Court below is in direct departure from its decision in *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 843, (E. D. Tex. 1956), *aff'd.* 259 F. 2d 398 (5th Cir. 1958) and directly conflicts with the decision of the Court of Appeals for the Second Circuit in *Picard v. United Aircraft Corp.*, 128 F. 2d 632 (2d Cir. 1942), with the Third Circuit case of *Darsyn Laboratories Inc. v. Lenox Laboratories, Inc.*, 120 F. Supp. 42 (D. N. J. 1954), *aff'd.* 217 F. 2d 648 (3rd Cir. 1954), and with the decision of the Court of Appeals for the Seventh Circuit in *Northrup v. Reish*, 200 F. 2d 924 (7th Cir. 1953). These cases have had a common fact situation: receipt by a confidant of trade secret information; subsequent disclosure of the information to the public by the owner; and then utilization of the information by the confidant in competition with the former owner. It was held that the former confidant was free to use the information the owner had made public. The decisions in the present case by the courts below disallow the former confidant access to that information.

This Court should affirm that an employee has the right to compete with his former employer and to use such information and skill as he has developed in that employ except as they are still secret. A primary object in a free economy is to encourage competition in creativeness leading to economies of manufacture and distribution.

The decision below frustrates efforts to achieve this objective. It places a cloud over all employees now working

in areas utilizing trade secrets and practically creates a state of industrial serfdom. It creates confusion in industrial property law that cries for resolution.

The courts have restrained competition only in those instances where a former employee has violated an agreement with a former employer, or where the former employee has used true trade secrets of the employer with the knowledge that they were trade secrets and that he was charged with the obligation not to use them. Agreements with the former employer not to compete are upheld only when of reasonable scope, limited to both time and place. In the case of implied obligations to refrain from using secrets of the former employer, they have been found to be present only under circumstances where the concepts involved are closely guarded and understood by the employee to be secret, and where notwithstanding this, the employee exhibited bad faith in appropriating and using the secrets for his own purposes. In the present case the Court, having *implied an obligation of confidence* is believed to have erred in failing to hold an implied release of that obligation as to all information placed in the now secret category by the employer.

3. The decision of the Court below wrongly interprets the controlling applicable state law.

Until the decision of the Court below, it was the law in Texas as clearly enunciated by the Texas Supreme Court, that:

> "The subject matter of a trade secret must be secret. Matters of general knowledge in an industry cannot be appropriated by one as his secret. *Matters which are completely disclosed by the goods which one markets*

> *cannot be his secret.* Restatement, Torts, Ch. 36, p. 7. The plaintiff, either directly or through others, widely exhibited, advertised and sold his pole and even in the early stages of its development, the defendants were some of the various people who knew about the secret." (emphasis added) *Wissman v. Boucher*, 240 S.W. 2d 278 (Tex. 1951).

It was further established in Texas Jurisprudence by way of the Court of Appeals for the Fifth Circuit that where a trade secret was publicly disclosed by the owner after he had revealed it in confidence to another, and the confidant had used it after the owner's public disclosure in competition with the former owner,

> "No cause of action for breach of confidence can accrue to the owner of an alleged trade secret by reason of the use or publication of such secret by another, after the owner has revealed his secret to the public by the sale of articles incorporating the secret. *In this case, all of the acts on the part of Defendant of which Plaintiff complains occurred after Kinnear sold the public bits incorporating his alleged trade secret.*" (emphasis added) *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 843, (E.D. Tex. 1956); Aff'd 259 F. 2d 398 (5th Cir. 1958).

But now the Court of Appeals for the Fifth Circuit departs from these views, stating

> "We hold that where an employee has in confidence gained information concerning a machine incorporating trade secrets and has divulged or attempts to divulge the same *after the device has become public by some other means,* the Texas law labels such conduct a breach of confidence and will enjoin the reaping of benefits therefrom. While the Supreme Court of Texas has not been faced with this exact fact situation, a Court of Civil Appeals has decided a case in point, *Atlas Bradford Co.*

v. Tuboscope Co., Tex. Civ. App. 1964, 378 S.W. 2d 147, 141 USPQ 262. In holding the employee vulnerable to injunctive relief, the court stated:

> " 'Where one, as a result of confidential relationship, gains knowledge of the 'trade secret' * * * of another, *prior to its being patented*, and while it is still a 'trade secret'; and after the matter has been patented, uses or discloses the information, our courts deny him resort to the patent on the theory that a person's wrongful acts may deprive him of the right which he would otherwise have as a member of the public (emphasis in the original). Id. at 149, 141 USPQ at 263.' " (emphasis added) (R. 311)

The Court of Civil Appeals in *Tuboscope* cited three Texas Supreme Court cases as authority for this proposition: *Luccous v. Kinley*, 376 S.W. 2d 336, 141 USPQ 78 (Tex. 1964); *Hyde v. Huffines*, 314 S.W. 2d 763, 117 USPQ 44 (Tex. 1958); *K & G Oil Tool & Service v. G. & G. Fishing Tool Service*, 314 S.W. 2d 782, 117 USPQ 54 (Tex. 1958). Not one of these cases supports the statement for which they are cited.

In *Luccous*, a closed corporation principally held by John Luccous took a license from M. M. Kinley Co. to use its patented sand-line cutters on a rental basis. A year later the patent expired. Subsequently, J. C. Kinley purchased the sand-line cutters and all rights and interest in the license agreement from M. M. Kinley Co., and John Luccous sold all of his interest in Luccous Company to a third party. J. C. Kinley then sued John Luccous to enjoin his use of sand-line cutters he alleged to be personally made as a result of knowledge acquired by Luccous under the licensing agreement. Kinley alleged that the tools were trade secrets,

that a confidential relationship existed between the parties by virtue of the licensing agreement, and that Luccous was breaching his duty to Kinley in the use of such tools.

The Supreme Court of Texas said Luccous could not be enjoined for such use. There was no trade secret because the information defendants had appropriated had long since been disclosed to the public by issuance of the patent on which the contractual relationship between the parties had been based. It made no difference that the information had been acquired under the agreement and not by study of the patent. The Court said that while it had enjoined persons from the right to avail themselves of the effective dedication of information to the public by the patentee in the *Huffines* and *K & G Oil Tool Company* cases, those holdings had been based on the theory that a person's wrongful acts might deprive him of the right he would otherwise have had as a member of the public.

The Court pointed out that in *Hyde Corporation v. Huffines*, the defendant, as a result of a contractual relationship had gained knowledge of plaintiff's invention prior to its being disclosed by a patent issuing on it and *while it was still a trade secret*. Defendant in that case had utilized the information so acquired to his own advantage *before* the owner of the information had disclosed it to the public. By getting a head start on the public in this improper manner he had gained a marketing advantage which the Court would nullify by injunction. The *Huffines* situation was not present in *Luccous*, said the Court, because in *Luccous* the subject knowledge had long since been in the public domain.

The Court also distinguished *K & G Oil Tool Service Company v. G & G Fishing Tool Service.* In that case the defendant had not only gained information of plaintiff's trade secret and used it to plaintiff's detriment *prior* to plaintiff's disclosing some of it in a subsequently isstfing patent, *but it had specifically contracted that during the time it handled the tool in question it would not disassemble the tool.* It was mutually understood that the purpose of such agreement was to guard against anyone's determining the internal construction of the fishing tool by examining the interior thereof. *Notwithstanding the agreement, the defendant had disassembled the tool to examine it.* The Supreme Court had held in that case that the plaintiff was not deprived of his cause of action for defendant's breach of confidence simply because some of the plaintiff's secrets were *later* disclosed by the issuance of the patent.

In the present case, as in *Luccous*, but not in *Huffines* or *K & G Oil Tool Co.*, the information used by the defendant was acquired properly and necessarily for Kershaw's benefit in the course of defendants employment. To the extent that there was any use, it occurred *after* the information was in the public domain.

The *Tuboscope* case, on which the Court of Appeals here relies, is further inapposite to the case at bar, as that case involved a *written agreement* not to use or disclose plaintiff's trade secrets *whether "patented or not".*

The decisions in *Huffines, K & G Oil Tool Co.*, and *Tuboscope* relied upon by the Court below and the line of de-

cisions that those cases follow, notably headed by *Adolph Gottscho, Inc. v. American Marketing Corporation*, 18 N.J. 467, 105 USPQ 398 (Sup. Ct. N.J. 1955) and *Smith v. Dravo Corp.*, 203 F. 2d 369 (7th Cir. 1953) all involved a breach of confidence that disclosed what was a trade secret *before* the secret was revealed to the public by the owner. These decisions are not questioned here. They just do not apply to the fact situation at bar. Rather the *Boucher* and *Kinnear-Weed* decisions, as reflected in *Luccous*, are dispositive of the case.

In the case of *Gallowhur Chemical Corp. v. Schwerdle*, 117 A. 2d (N.J. Super. Ct. 1956), Schwerdle, an employee of Gallowhur, had *expressly* contracted not to disclose confidential information. Schwerdle left Gallowhur's employment with full knowledge of certain trade secrets. After a patent to Gallowhur disclosing the trade secrets issued, the company then employing Schwerdle began to use the trade secrets. Gallowhur sought to enjoin this use as a breach of confidence. Thus the facts were on all fours, in essence, with the present case, except that it was an even harder issue by reason of the express contract. The Court stated:

> "Plaintiffs urge a trust concept as affecting the status of these defendants, arguing that the individual defendants here were fiduciaries. Accepting that hypothesis, let us pose a question. Where the fiduciary has kept his trust until after the inventor has voluntarily revealed its subject matter, should the fiduciary be penalized in a trade secret case (by contrast with the rest of the public) for having had the fiduciary status and faithfully maintained it? And still holding to the hypothesis of trust, is not the trust itself terminated by the trustor's publication? The answer appears to be obvious."

Here too, it would appear obvious that the Court below should have corrected the error of the District Court in concluding that a former employee who had "faithfully maintained" his trust until after his employer disclosed the subject secret should nonetheless be denied access to that information.

4. The question presented in this case is of great public importance.

In this age of technology, a high percentage of our citizens are employed as engineers, scientists or technologists. It is important that there be no undue restraints on technological developments. The courts below, by holding that an employee may not use information after it is published by a former employer, cast a cloud over the future of each and every technological employee. He is shackled to his present technological employment. Under this decision an employee may not leave one employer and engage in the new employment in the same field without being subject to action by the former employer, notwithstanding that the subject matter of the work in the former employment is in the public domain and notwithstanding his good faith.

Under the rule apparently established by the courts below, it is not seen how any reasonable test could be applied in determining the extent of a former employee's obligation. As a practical matter, a former employee is placed in a position of limbo for an indeterminable period of time concerning all subject matter that he first learned or helped develop with his former employer. This is true even though

the employer has made his technology freely available to the rest of the world. Paradoxically, the former employee is restrained, because of his increased expertise, from further advancement in the industry in which he is most productive. Trade is unduly restrained because the dissemination of ideas, processes, and methods is diminished; and competition and society suffers.

And under the rule of law apparently established by the courts below, no company, can, with any confidence, hire technological personnel who had ever been employed by a competitor and use such personnel in the area of technology where his training makes him most useful. The bargaining position of the employee wishing to change employers is weakened. His personal freedom to pursue a preferred course of livelihood is limited. Consequently, any change in employment for technological personnel, under the rule of law as established by the courts below, will generally involve (i) a complete change of occupation as is now defendant Bryan's lot, and (ii) a pronounced and uncalled for personal sacrifice of dearly gained ability and remuneration therefor.

It is submitted that unless this court give needed direction in the present case, a rule will be promoted which is inconsistent with and detrimental to national interests as well as individual freedoms. The resulting restraint will be most damaging to the individual and to the public. The law as it now stands with the decision of the courts below will make possible industrial serfdom at the whim of an employer and will impair technological progress.

SUMMARY

Since the decision of the court below is so at odds with the decisions of this Court in *Compco* and *Stiffel*, as well as in conflict with decisional law on similar facts in other circuits, departs from the law of the State it purports to apply, and presents a question greatly in need of resolution in the public interest, this petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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